



CIO OFFICE MORNING MARKET WRAP – Monday December 6, 2021. ALSO AVAILABLE ON ALEXA

Last week was mixed and differentiating on global markets: the fixed income asset class was supported by falling interest rates while a wave of profit taking sent tech stocks and cryptocurrencies lower. Market participants have to deal with two concerns: the new variant Omicron and the Fed's more hawkish tilt.

With regards to the former, uncertainty prevails on its three key characteristics: severity, infectiousness and resistance to vaccines. The severity in general and for vaccinated people in particular will be the most important in order to assess the potential impact on the economic outlook. We won't know before having enough data, which unfortunately means more clinical cases with more different profiles. Early indications point to high infectiousness, including on vaccinated people, but mild severity. If confirmed, markets have probably corrected enough to discount such a scenario. But it's again, too early to call.

The second concern also includes a fair proportion of unknown. The Fed is now indicating a faster pace of tapering, which obviously suggests a potentially earlier lift-off of interest rates. How early, and how many are crucial questions without answers. Markets seem to be currently more concerned about the downside risks to the economy than about upside risk to interest rates. We tend to think that any early rate hike could be more symbolic than the real start of a full cycle.

In the news today, Saudi Arabia raised the price of its oil for buyers from Asia and the US for January. On the other side of the Gulf, Iran's foreign ministry reiterated that there could be no nuclear agreement without a clear path for lifting US sanctions. Talks on the matter should resume this week in Vienna, with little progress so far. Meanwhile, Joe Biden and Vladimir Putin will hold a call together on Tuesday, at a time when tensions are also rising over Ukraine.

As we write this morning, markets in Asia are reflecting Friday's rise in risk aversion, but in very reasonable proportions. Stocks are flat to slightly down on most exchanges, with Hong-Kong underperforming, down -1.2%, due to its heavy technology weighting. By contrast, indices in mainland China are up +0.6%, benefitting from speculations of a potential easing of banks' reserve requirements. Future contracts on Western indices are stabilizing. Interest rates are modestly firmer with the US 10-year at 1.38%, and so is gold, trading close to \$1800. Oil prices are up 2% to \$71.5 for the Brent crude future contract. The crypto sphere is looking for a direction, with Bitcoin currently trading just below \$49,000.

Among the data released today, Euro area consumer confidence will probably be the less uninteresting. The GDP for the zone will be released tomorrow, before the potentially market-moving numbers: China and US inflation on respectively Thursday and Friday. Stay safe.

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